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Southeast Minnesota Economic and Business Conditions Report - First Quarter 2016

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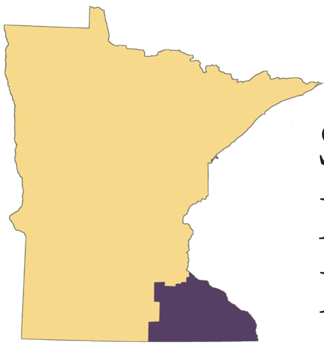

Southeast Minnesota
Economic and Business Conditions Report
First Quarter 2016

This issue is part of a series for the six planning areas of Minnesota –
Central, Northeast, Northwest, Southeast, Southwest, and Twin Cities.
The Southeast Minnesota Planning Area consists of 11 counties:
Dodge, Fillmore, Freeborn, Goodhue, Houston, Mower, Olmsted, Rice, Steele, Wabasha, and Winona.

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Executive Summary

Southeast Minnesota economic performance is expected to remain steady over the next several months according to the most recent prediction of the Southeast Minnesota Index of Leading Economic Indicators (LEI). After a quarter in which the LEI experienced a small gain, the Southeast Minnesota leading index once again tallied a small increase by rising 0.6 points in the first quarter of 2016. Three of the five index components were positive in the most recent quarter. Improvement in the Minnesota Business Conditions Index (which serves as a general measure of state business conditions), falling quarterly claims for unemployment benefits, and an increase in new business filings for incorporation and LLC helped boost the first quarter LEI. A smaller number of residential building permits in the Rochester area and weakness in consumer sentiment had an unfavorable impact on the index.

There were 929 new business filings with the Office of the Minnesota Secretary of State in Southeast Minnesota in the first quarter of 2016 — representing a 4.7 percent increase from one year ago. There were 80 new regional business incorporations in the first quarter, an 11.1 percent increase from prior year levels. At a level of 539, first quarter new limited liability company (LLC) filings in Southeast Minnesota were largely unchanged from the first quarter of 2015. New assumed names totaled 270 in the first quarter—a 10.2 percent improvement over the same quarter in 2015. There were 40 new filings for Southeast Minnesota non-profits over the three months ending March 2016—ten more filings than one year earlier.

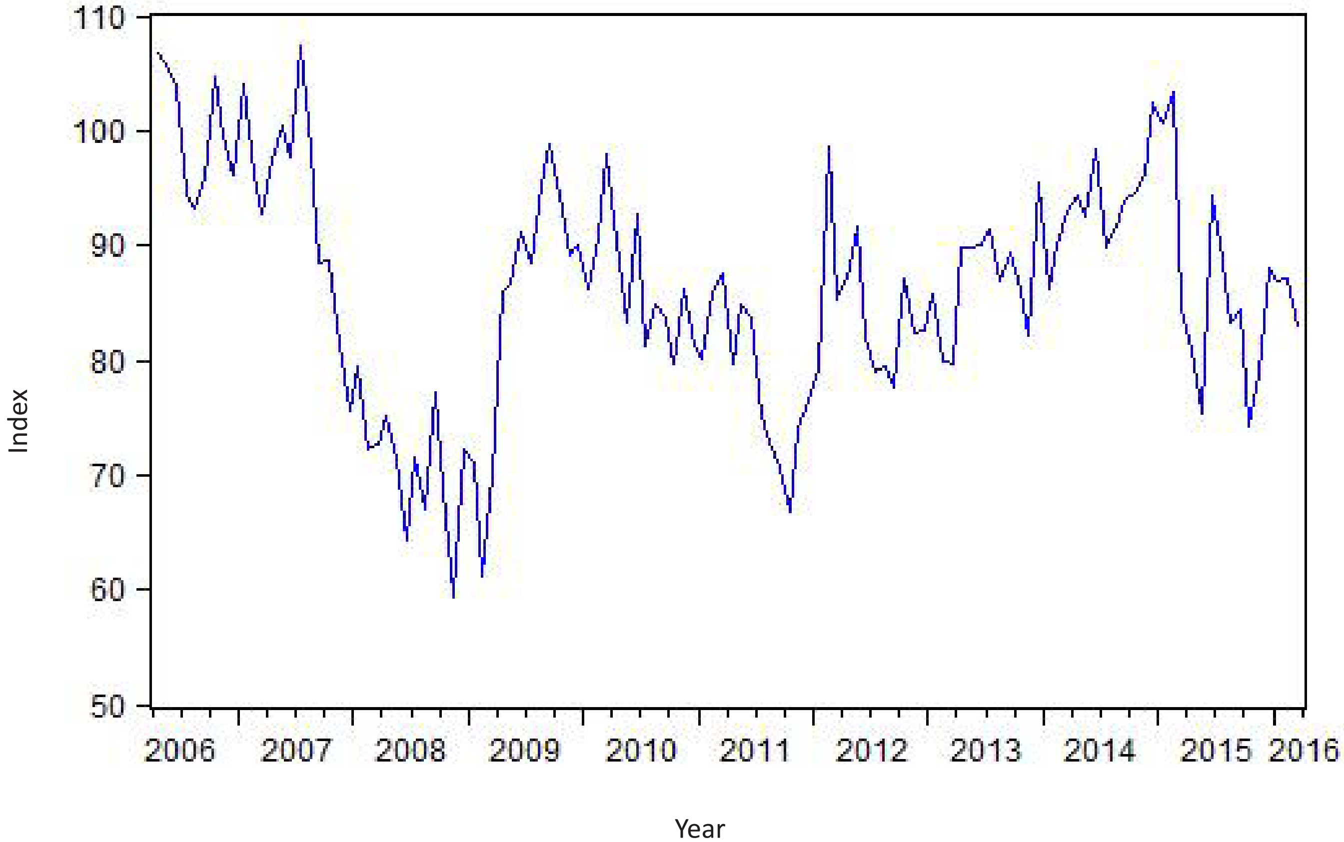
Employment of Southeast Minnesota residents increased by 1.3 percent over the year ending March 2016. Compared to March 2015, 3,505 more residents of Southeast Minnesota now have jobs. The regional unemployment rate was 4.1 percent in March, an improvement from 4.2 percent in the year earlier period. Initial claims for unemployment insurance in March 2016 were nearly 20 percent lower than one year earlier. The Southeast Minnesota labor force expanded by 1.2 percent over the past year and regional job vacancies remained elevated. The planning area's bankruptcies continued to fall.

Data from the Rochester area—the largest market in Southeast Minnesota—were mixed, with an increase in overall employment (along with employment growth in the key health/education sector), higher average hourly earnings, a lower unemployment rate, a reduction in initial jobless claims, and an expanding labor force having a positive impact on the outlook. On the negative side was a shorter workweek, a lower value of residential building permits, and reduced new business filings.

Southeast Minnesota Leading Economic Indicators Index

The SCSU Southeast Minnesota Leading Economic Indicators (LEI) index is designed to predict performance of the regional economy with a four-to-six month lead time. The LEI finished 0.6 points higher in the first quarter, and is now 2 percent below its level of one year earlier. As can be seen in the accompanying figure, the LEI was marked by considerable volatility in 2015. This volatility interrupted a general upward trend in the LEI that had occurred from mid-2012 through the end of 2014.

SCSU Southeast Minnesota Index of Leading Economic Indicators (December 1999 = 100)



Components of SCSU Southeast Minnesota Leading Economic Indicators Index

Component of Index	Contribution to LEI, 1st quarter 2016	Contribution to LEI, 4th quarter 2015
Minnesota Business Conditions Index	1.83	-3.41
Southeast Minnesota initial claims for unemployment insurance	3.33	-1.80
Southeast Minnesota new filings of incorporation and LLCs	0.40	-3.77
Rochester MSA residential building permits	-3.93	6.22
Consumer Sentiment, University of Michigan	-1.03	3.56
TOTAL CHANGE	**0.60**	**0.8**

Three of five components of the LEI had a positive reading in the first quarter. Recent improvement in the Minnesota Business Conditions survey (conducted by Creighton University), which serves as a general measure of state business conditions, contributed to an increase in the LEI, as did lower initial jobless claims in the first quarter. Higher new filings for business incorporation and LLC in Southeast Minnesota also served as a boost to the leading index. Southeast Minnesota contains Rochester, a medical destination. Decisions to consume medical services depend in part on consumer choice, so consumer sentiment is used as a national-level indicator of Southeast Minnesota business activity. Consumer sentiment weakened in the most recent quarter. Lower residential building permits in the Rochester metropolitan area also made a negative contribution to the index in the first quarter.

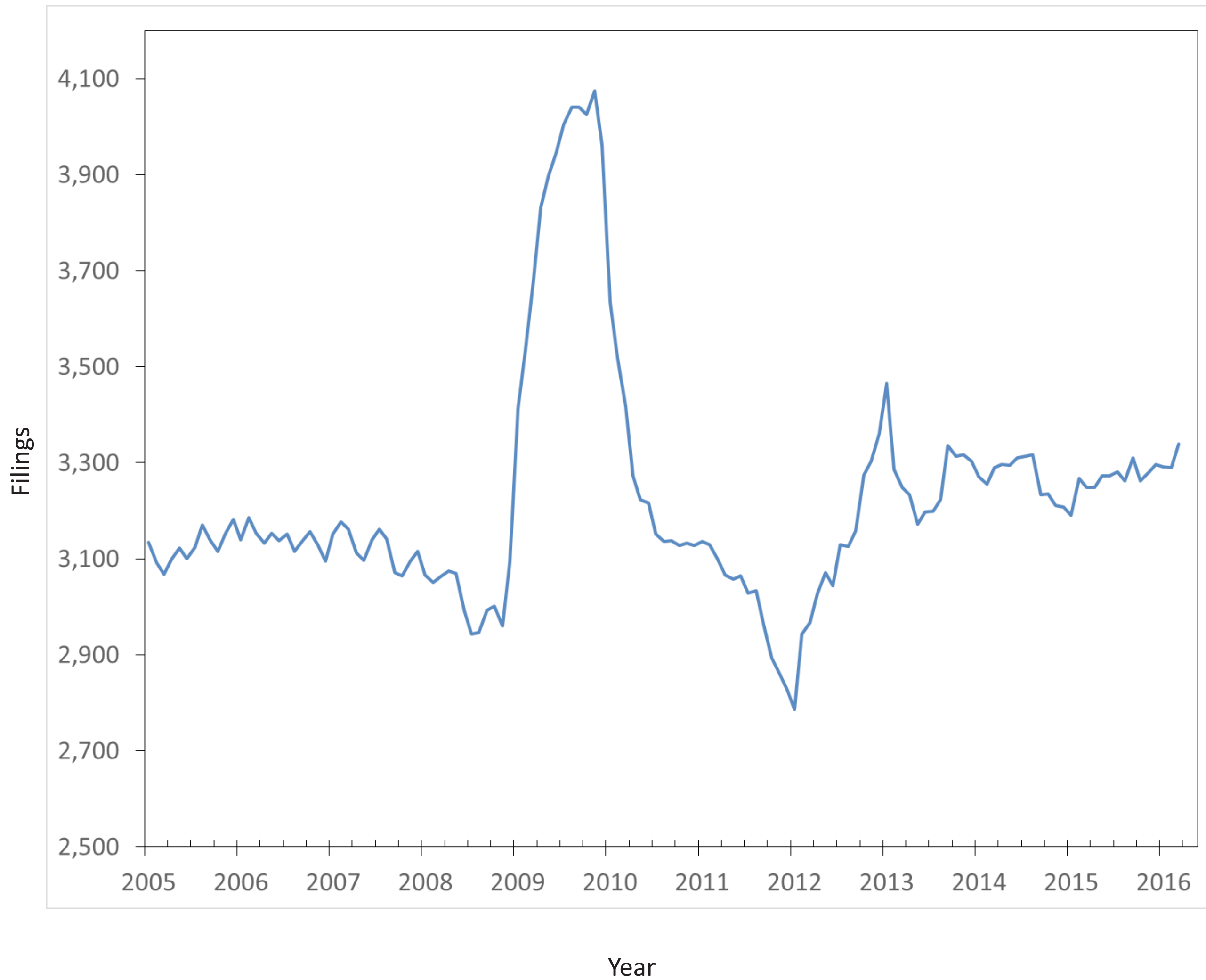
SCSU Southeast Minnesota Leading Economic Indicators Index	2016	2015	Percentage change
Minnesota Business Conditions Index March	50.7	50.0	1.4%
Southeast Minnesota initial claims for unemployment insurance March	906	1,335	-32.1%
Southeast Minnesota new filings of incorporation and LLCs First Quarter	619	612	1.1%
Rochester MSA single-family building permits March	34	32	6.3%
Consumer Sentiment, University of Michigan March	91.0	93.0	-2.2%
Southeast Minnesota Leading Economic Indicators Index March (March 1999 = 100)	82.9	84.6	-2.0%

Southeast Minnesota Business Filings

First quarter new business filings rose 4.7 percent to a level of 929. As can be seen in the accompanying graph, the 12-month moving total of new business filings in Southeast Minnesota is little changed since mid-2012. The abrupt increase in new filings in the middle of 2008 is largely a result of increased new LLC filings. This outlier (resembling a shark fin) is related to considerably higher filings in the construction industry due to legal and regulatory issues and appears to be a one-time only transitory event seen in the data in all regions of Minnesota.

Note: The graphs in this section show the 12-month moving total for the various new business filings in Southeast Minnesota that are registered with the Office of the Minnesota Secretary of State. Doing so removes seasonal patterns in the data.

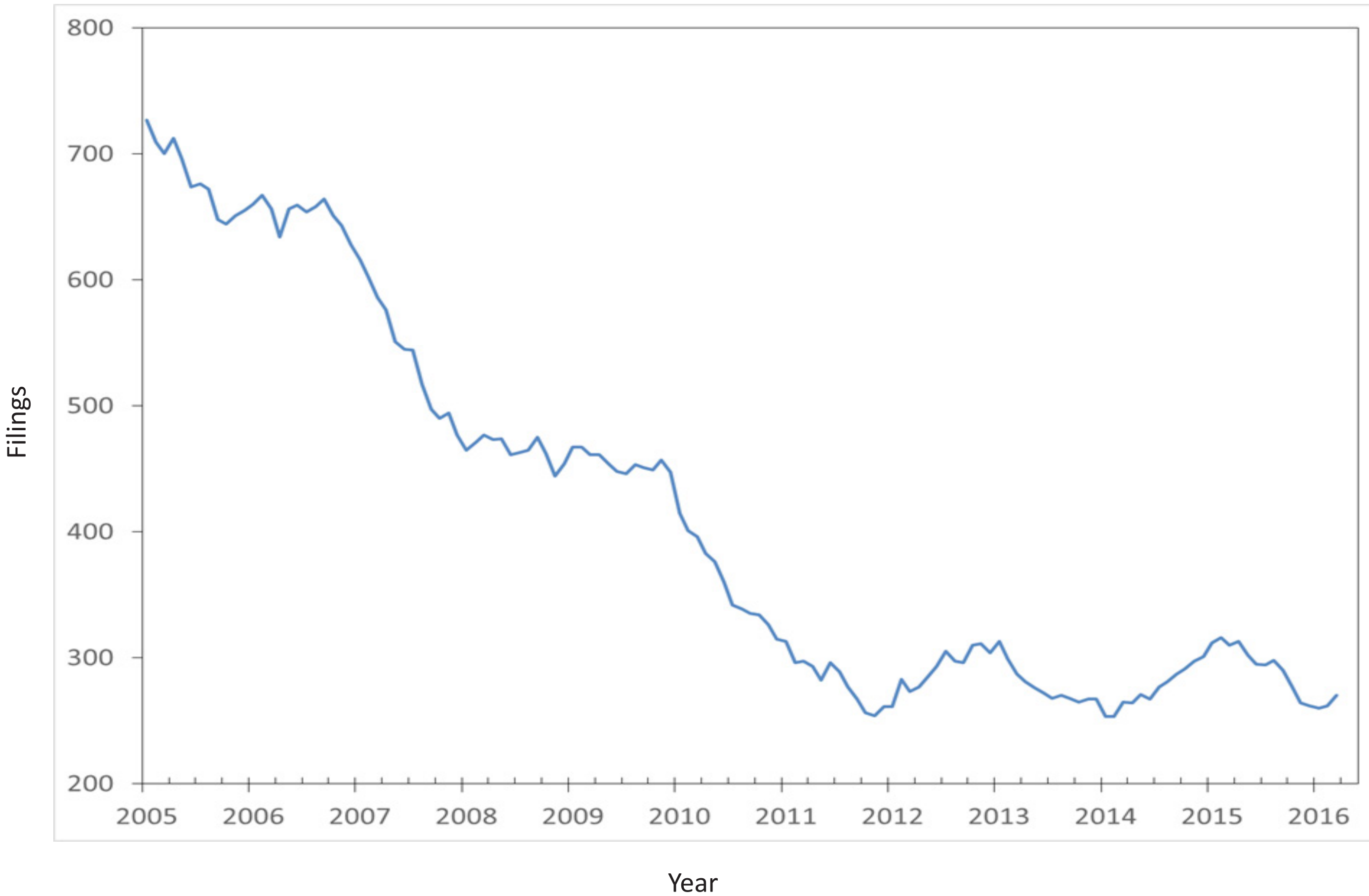
Total New Business Filings—Southeast Minnesota Planning Area (12-month moving total)



Quarter	I: 2015	II: 2015	III: 2015	IV: 2015	I: 2016	2016 Quarter I: Percent change from prior year
Southeast Minnesota Total New Business Filings	887	864	804	740	929	4.7%

New business incorporations trended downward in Southeast Minnesota from 2005 to 2012, but have fluctuated around a fairly constant trend in recent years. New incorporations rose 11.1 percent from year earlier levels in the most recent quarter.

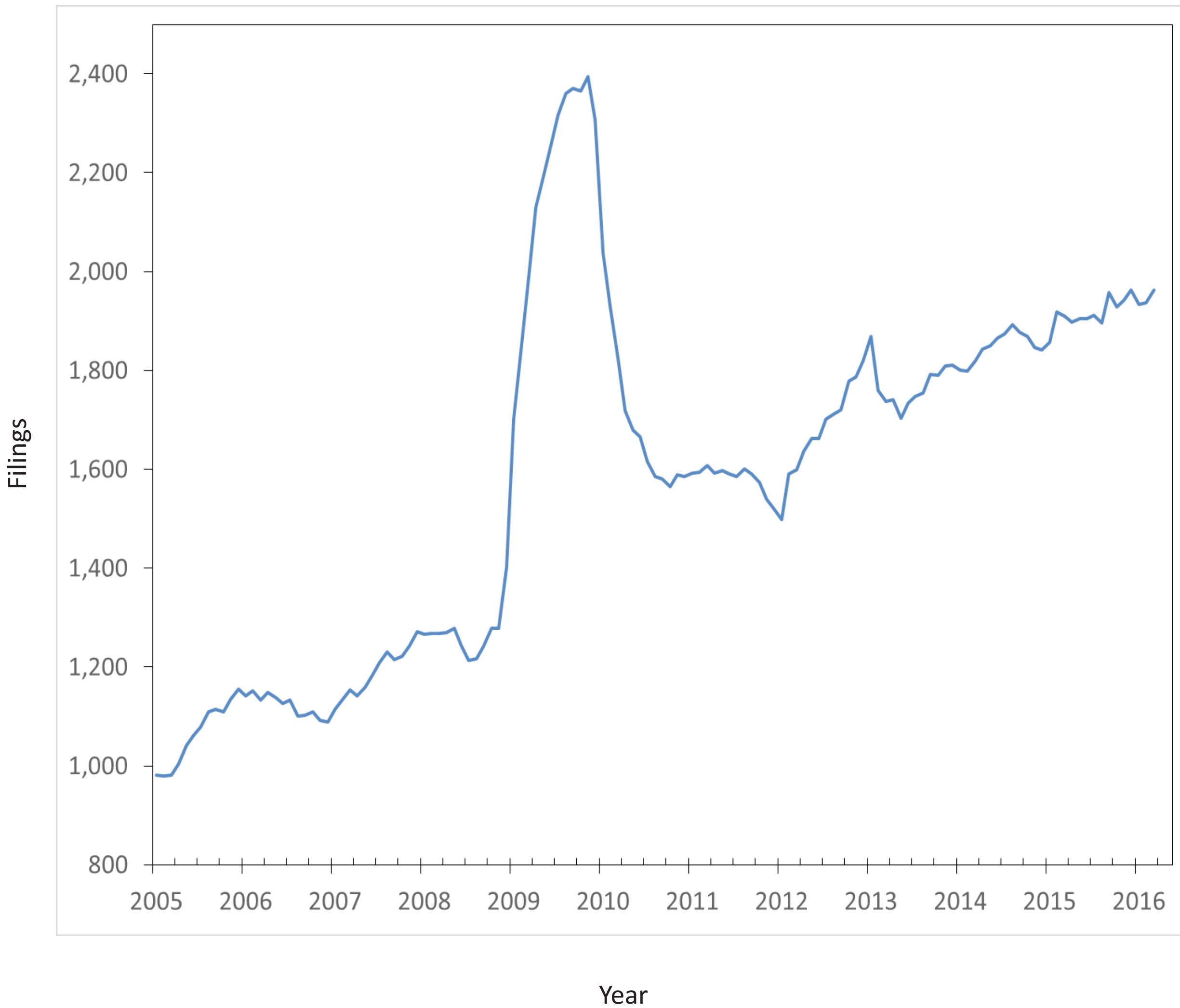
New Incorporations—Southeast Minnesota Planning Area (12-month moving total)



Quarter	I: 2015	II: 2015	III: 2015	IV: 2015	I: 2016	2016 Quarter I: Percent change from prior year
Southeast Minnesota New Business Incorporations	72	60	69	61	80	11.1%

There has been a move in Southeast Minnesota, as in all of the state, away from the traditional incorporation form of business organization towards the LLC. While new business incorporations remain an important indicator of new business formation in Southeast Minnesota, LLCs are increasingly useful in evaluating regional economic performance. As seen below, there is a considerable upward trend in LLCs in Southeast Minnesota. With the exception of the outlier period in 2008-2009, new LLC formation has shown a fairly steady rate of growth since 2005. First quarter LLC filings fell by 0.2 percent over their year earlier level.

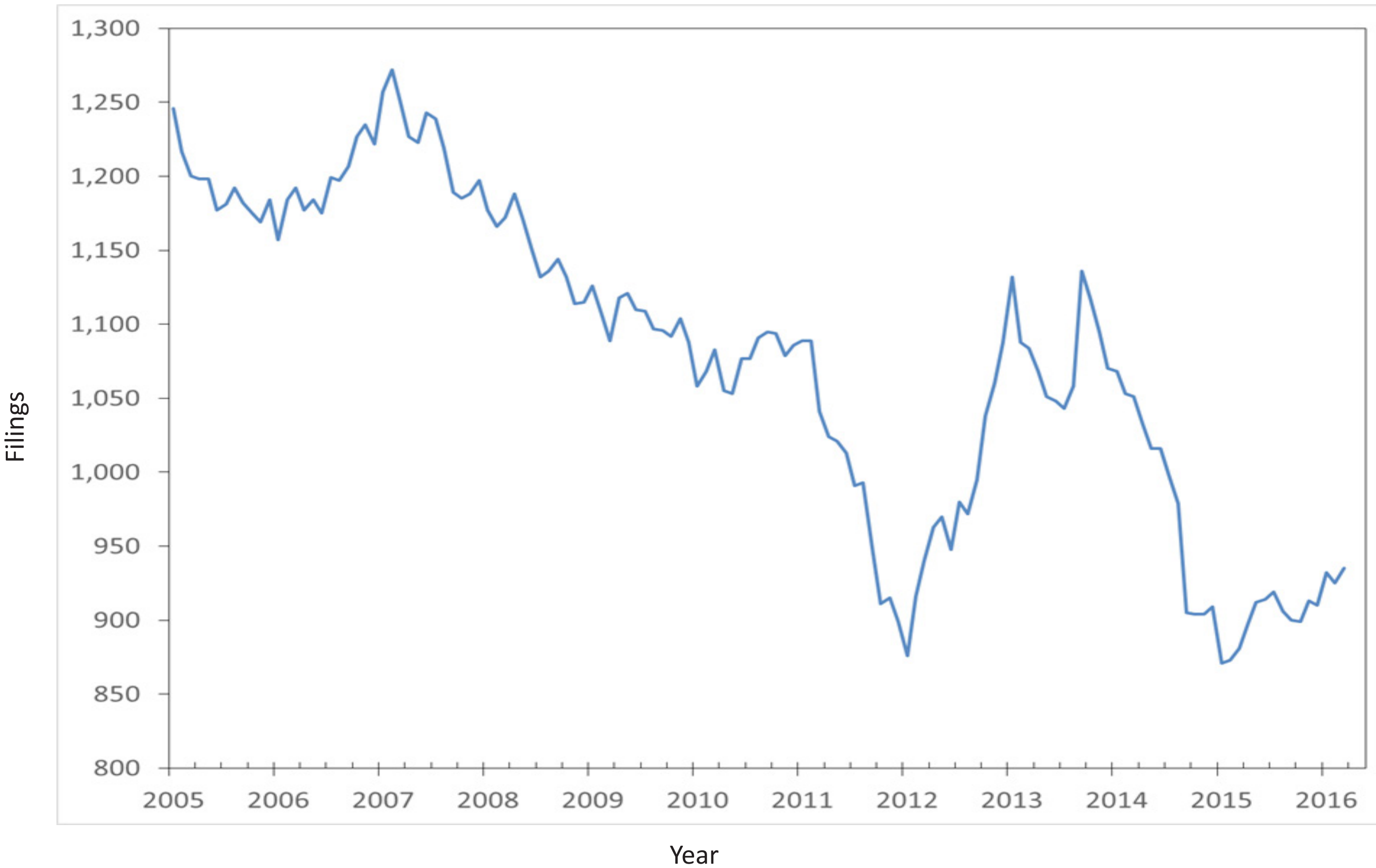
New Limited Liability Companies—Southeast Minnesota Planning Area (12-month moving total)



Quarter	I: 2015	II: 2015	III: 2015	IV: 2015	I: 2016	2016 Quarter I: Percent change from prior year
Southeast Minnesota New Limited Liability Companies	540	509	494	420	539	-0.2%

On a year over year basis, assumed names, which include sole proprietors or organizations that do not have limited liability, increased by 10.2 percent in Southeast Minnesota in the first quarter. As can be seen in the accompanying graph, after increasing in 2012, this series moved downward until the beginning of 2015.

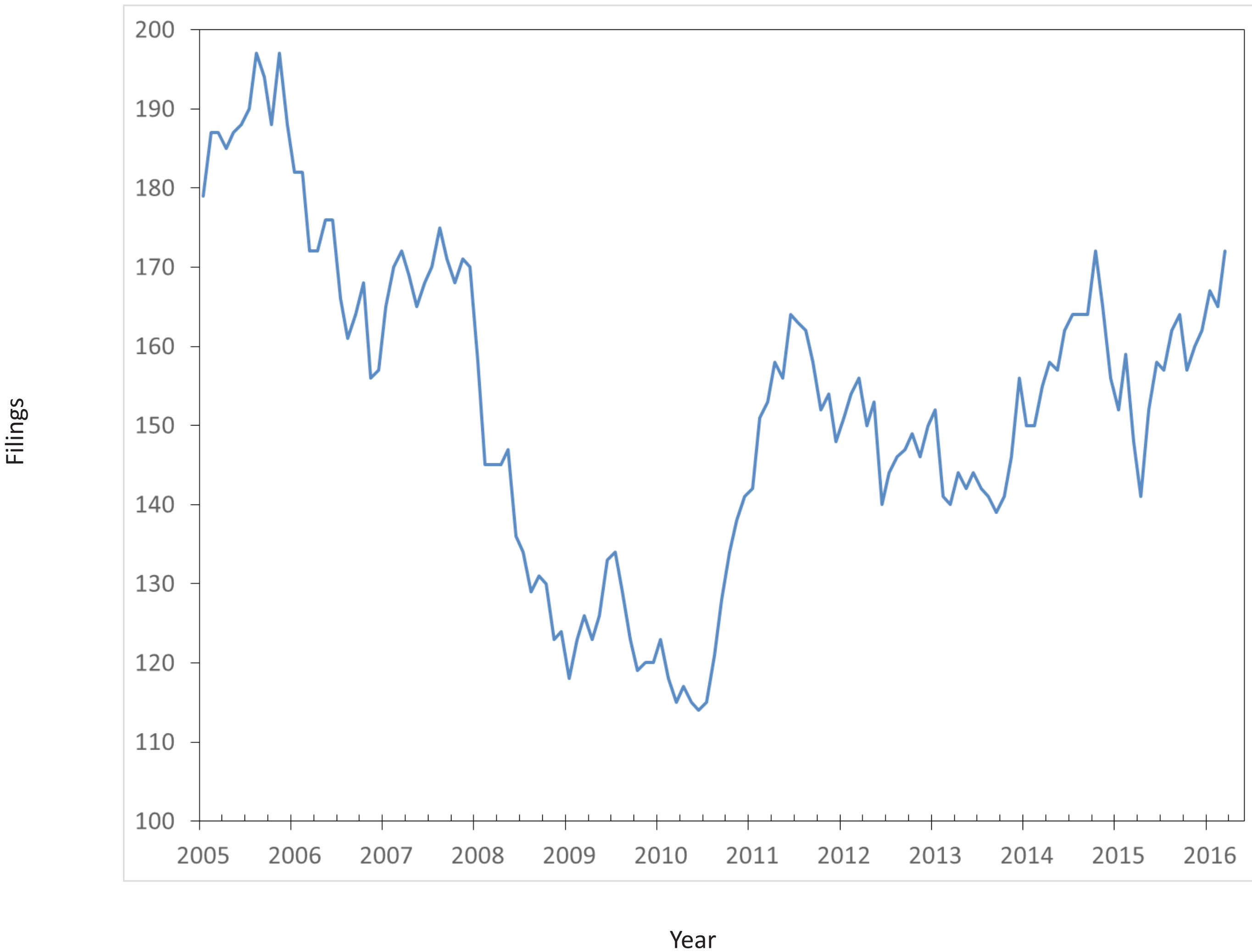
New Assumed Names—Southeast Minnesota Planning Area (12-month moving total)



Quarter	I: 2015	II: 2015	III: 2015	IV: 2015	I: 2016	2016 Quarter I: Percent change from prior year
Southeast Minnesota New Assumed Names	245	246	198	221	270	10.2%

After bottoming out in 2010, the number of new Southeast Minnesota non-profits registered with the Office of the Minnesota Secretary of State have increased to levels seen just before the Great Recession. The number of newly formed non-profits totaled 40 in the recent quarter (a 33.3 percent increase from the first quarter of 2015).

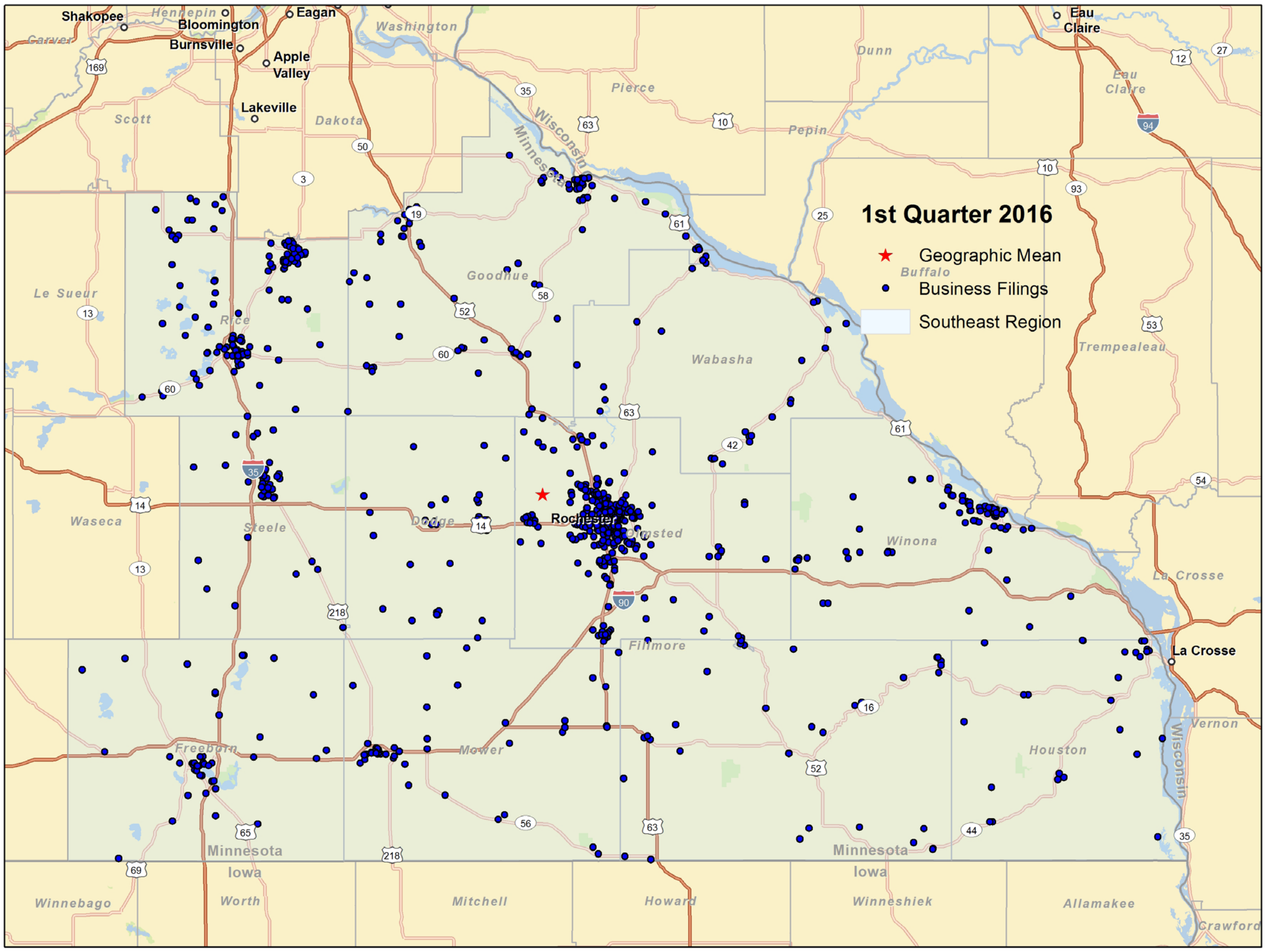
New Non-Profits—Southeast Minnesota Planning Area (12-month moving total)



Quarter	I: 2015	II: 2015	III: 2015	IV: 2015	I: 2016	2016 Quarter I: Percent change from prior year
Southeast Minnesota New Non-Profits	30	51	43	38	40	33.3%

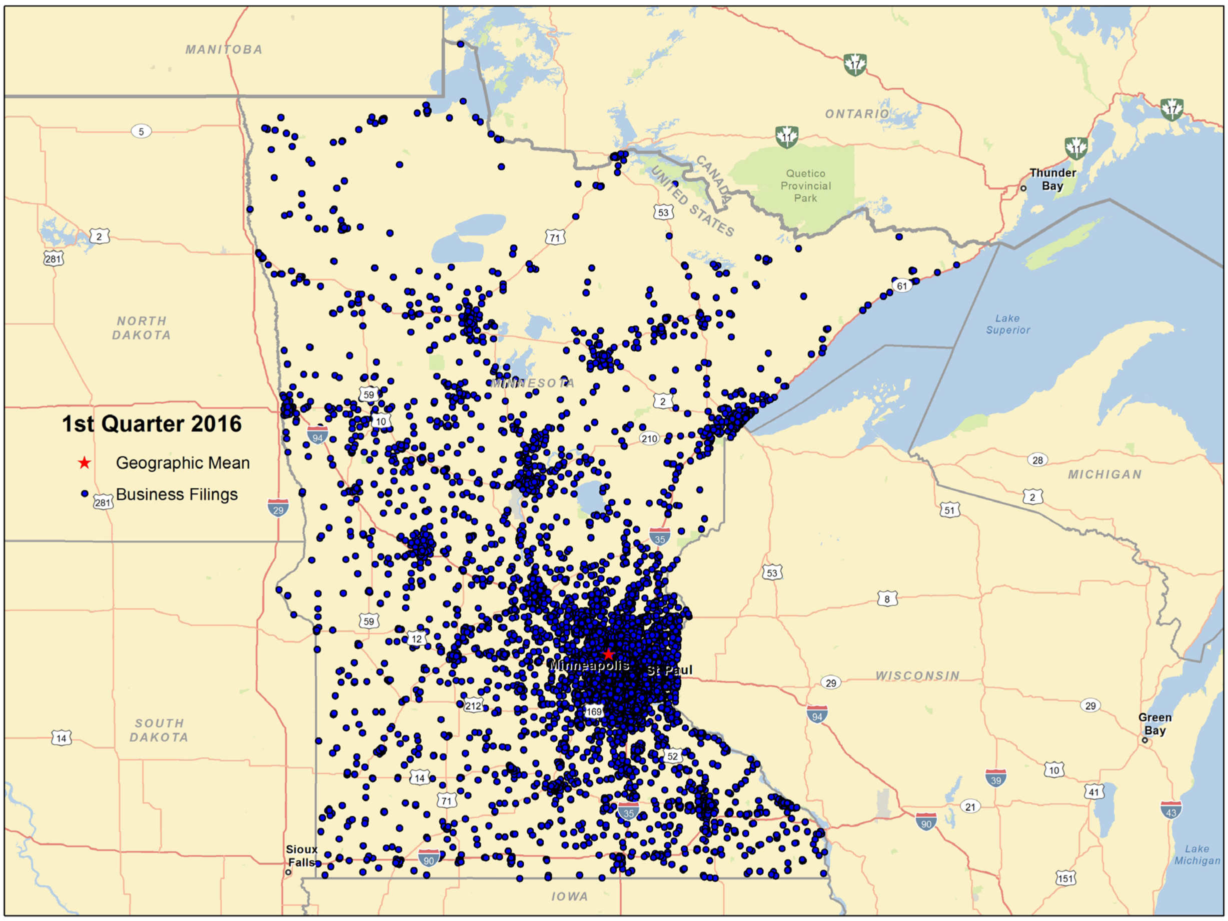
The first map shown below is a visual representation of new business formation around the Southeast Minnesota planning area in the first quarter of 2016. The densest areas of new business formation are in the Rochester metro. Well-traveled roadways are also a predictor of new business formation in Southeast Minnesota.

Southeast Minnesota Planning Area--New Business Formation--Quarter 1: 2016



The second map shows new business formation for the state as a whole. This visual aid demonstrates the considerable extent to which the Twin Cities metro area dominates new business formation in the state. The map shows how the Twin Cities metro stretches along roadways into the Southeast, Southwest and Central planning areas. Clusters of new business formation can also be seen in Duluth, Grand Rapids, Bemidji, Brainerd, Moorhead, Alexandria, St. Cloud, Rochester, and Mankato. The latter three cities are slowly losing their independent economic identity as they become increasingly connected to the Twin Cities metro.

Minnesota--New Business Formation--Quarter 1: 2016

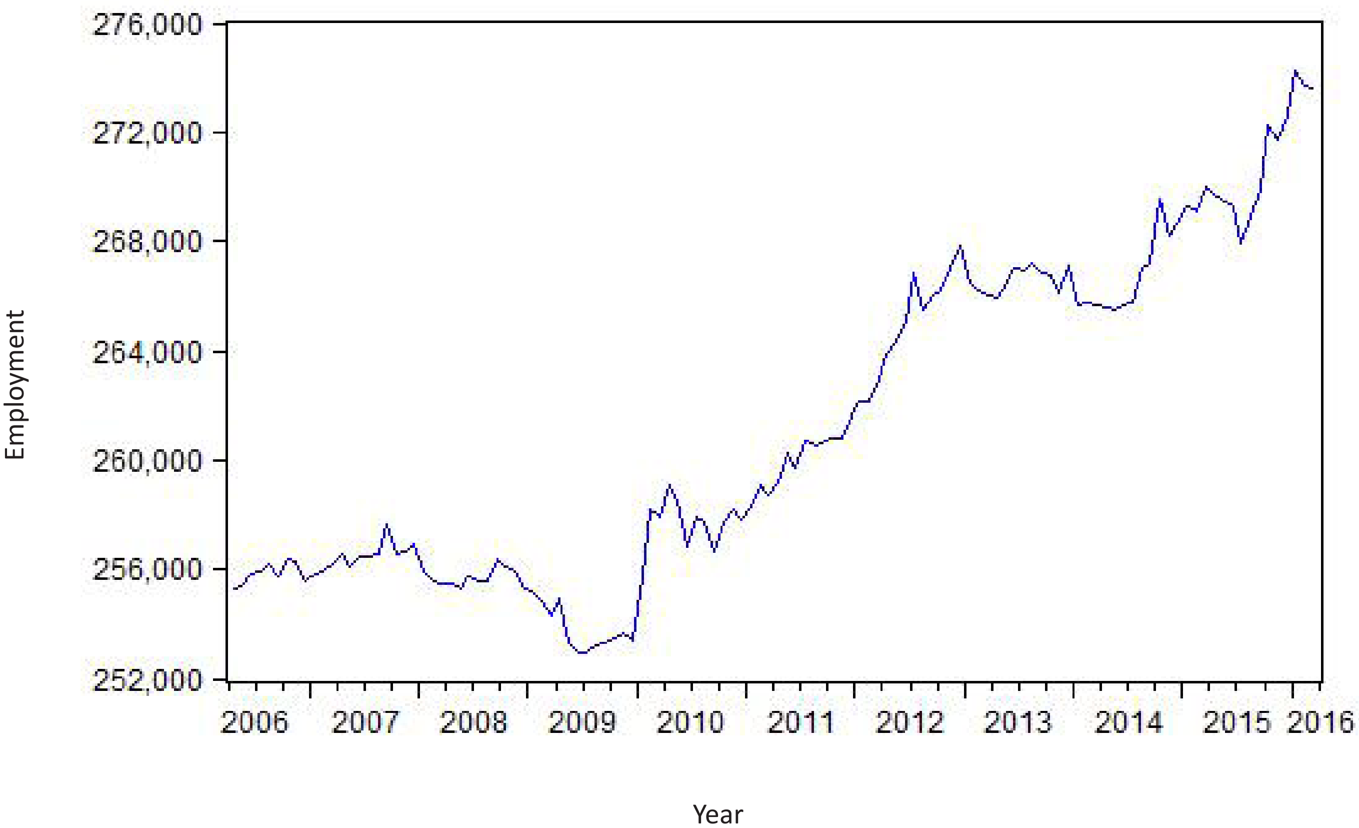


Southeast Minnesota Labor Market Conditions

Employment of those living in the Southeast Minnesota planning area grew 1.3 percent over the past year. As shown in the accompanying graph, the 12-month moving average of total employment has trended upward since the end of the Great Recession.

Note: seasonally adjusted labor market data are typically not available to evaluate regional economic performance so some series have been created to illustrate seasonal patterns of the regional labor market. Graphs of these indicators are found in this section of the report. Tabular data are not seasonally adjusted.

Employment—Southeast Minnesota Planning Area (12-month moving average)



Month	March 2015	October 2015	November 2015	December 2015	January 2016	February 2016	March 2016
Employment (Not seasonally adjusted)	267,485	273,792	273,050	271,754	270,432	269,756	270,990

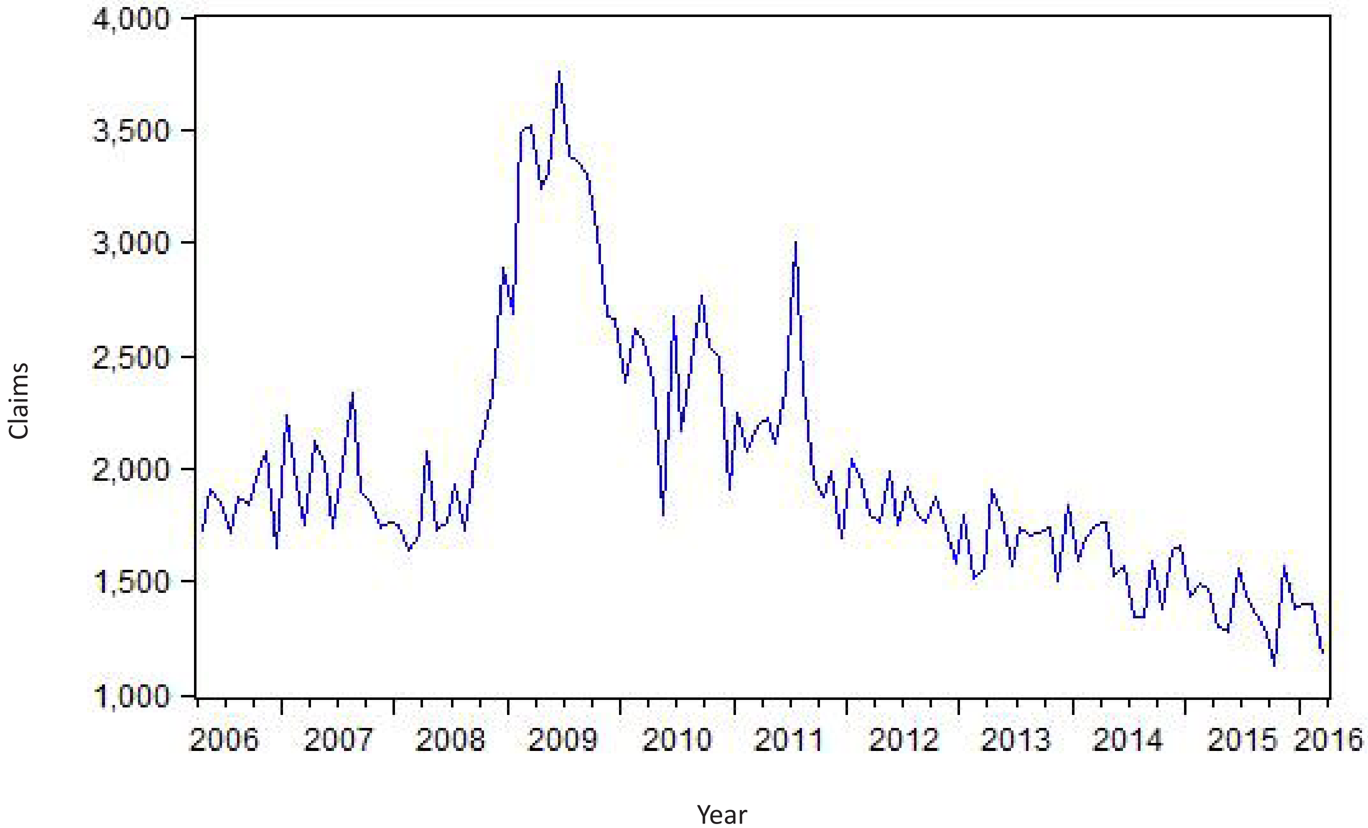
The seasonally adjusted unemployment rate in Southeast Minnesota had started to rise in the Southeast Minnesota planning area at the end of 2014 but it declined throughout most of 2015. It may have now bottomed out. The non-seasonally adjusted unemployment rate stands at 4.1 percent, lower than the 4.2 percent rate observed one year earlier.

Unemployment Rate, seasonally adjusted—Southeast Minnesota Planning Area

Month	March 2015	October 2015	November 2015	December 2015	January 2016	February 2016	March 2016
Unemployment Rate (Not seasonally adjusted)	4.2%	2.6%	2.6%	3.1%	4.1%	4.1%	4.1%

New claims for unemployment insurance in March 2016 were 19.9 percent lower than one year earlier. However, on a seasonally adjusted basis, these claims appear to have leveled out in recent quarters.

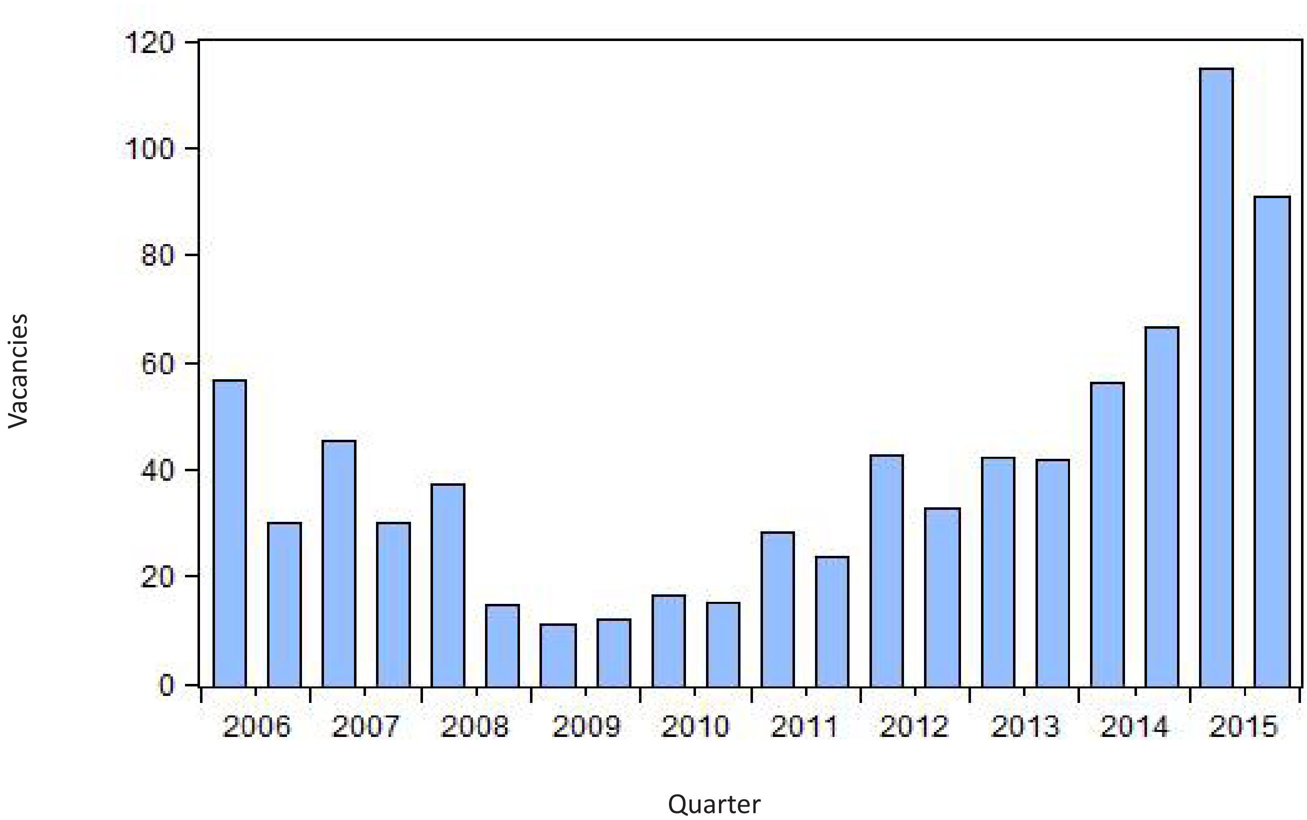
Total Initial Claims for Unemployment Insurance, seasonally adjusted—Southeast Minnesota Planning Area



Month	March 2015	October 2015	November 2015	December 2015	January 2016	February 2016	March 2016
Initial claims (Not seasonally adjusted)	1,335	958	2,333	2,717	1,136	1,394	1,070

The number of job vacancies per 100 unemployed remained elevated in last year's fourth quarter (this is the most recently available data). The labor shortage in this region persists—there are more jobs available than unemployed people to fill them. With a job vacancy rate of 105.07 per 100 unemployed, the Southeast region has the second highest job vacancy rate of any of Minnesota's six planning areas. Only the Twin Cities has a higher rate of job vacancies. Seasonally adjusted unemployment data are used in constructing the chart below. None of the figures reported in the table are seasonally adjusted.

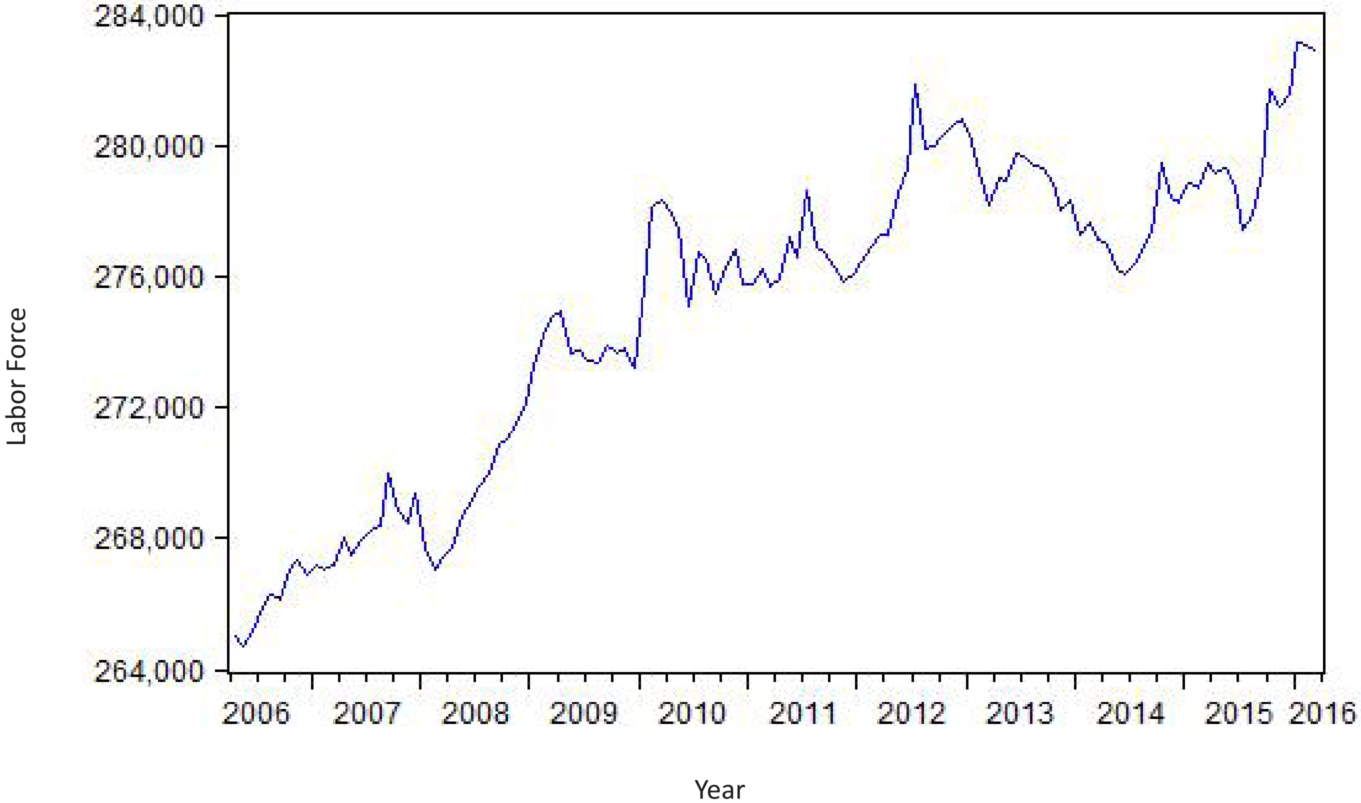
Job Vacancies per 100 Unemployed--Southeast Minnesota Planning Area



Quarter	2013:II	2013:IV	2014:II	2014:IV	2015:II	2015:IV
Job Vacancies per 100 Unemployed	43.05	49.07	59.42	78.11	119.55	105.07

The Southeast Minnesota labor force increased by 1.2 percent over the last year. The regional labor force is now 3,337 higher than in March 2015.

Labor Force—Southeast Minnesota Planning Area (12-month moving average)

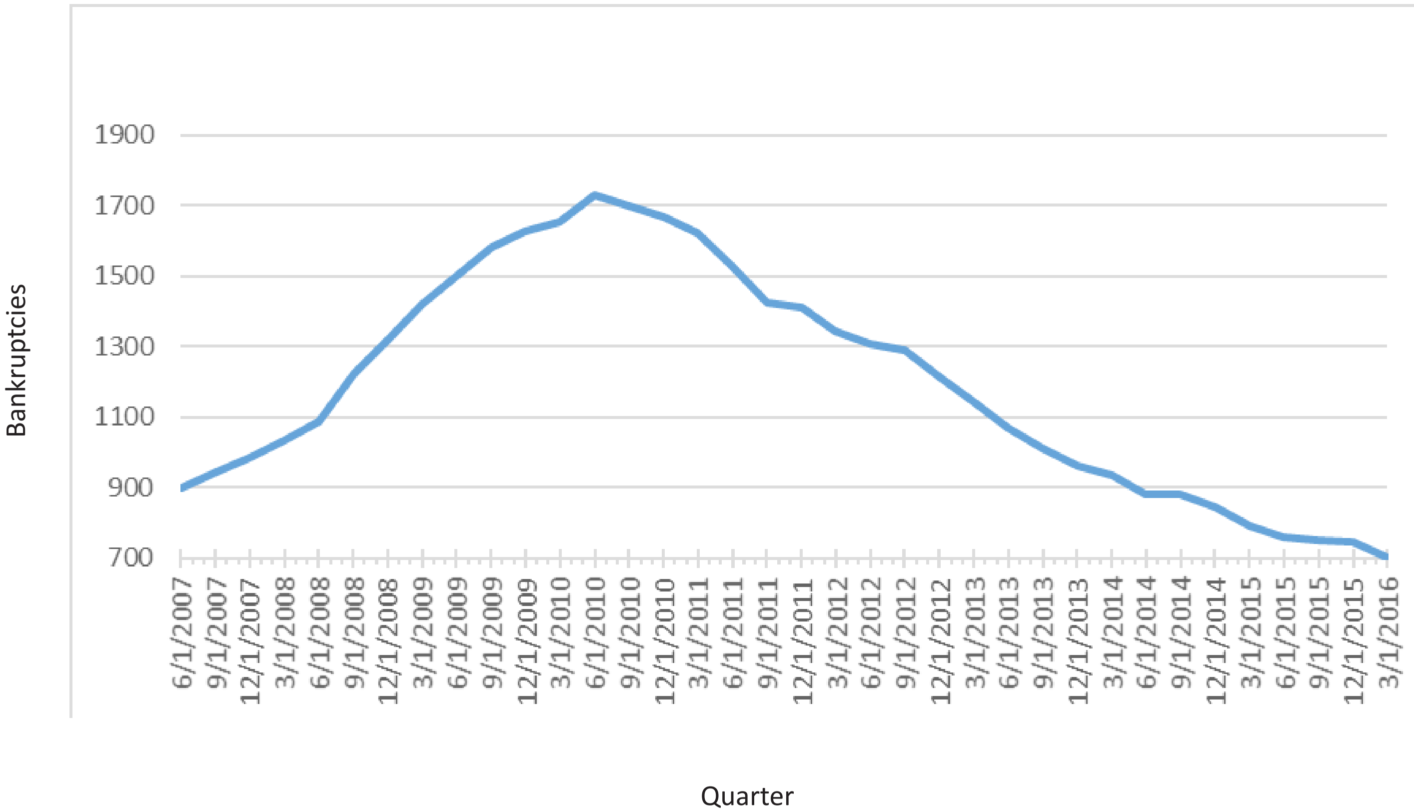


Year (March)	2011	2012	2013	2014	2015	2016
Labor Force (Not seasonally adjusted)	275,273	276,848	277,811	276,808	279,169	282,506

Southeast Minnesota Bankruptcies

The figure below shows the 12-month moving total for Southeast Minnesota bankruptcies since the second quarter of 2007 (shortly before the beginning of the Great Recession). As can be seen in the figure, this moving total increased through the second quarter of 2010, and has steadily declined since that time). With 700 bankruptcies over the past twelve months, the level of bankruptcies in Southeast Minnesota has now moved to a level that is the lowest recorded over the last nine years.

Southeast Minnesota Bankruptcies (12-month moving total)



Year (First Quarter)	2011	2012	2013	2014	2015	2016
Annual Bankruptcies (not seasonally adjusted)	1,624	1,342	1,141	934	791	700

Economic Indicators

Rochester MSA Indicators

	Period Covered	Current Period	Prior Year	Annual Percent Change	Long-Term Average (since 1999, unless noted)
Labor Market					
Employment	March 2016 (m)	115,601	113,193	2.1% ↑	1.0%
Manufacturing Employment	March 2016 (m)	10,666	10,678	-0.1% ↓	-2.8%
Educational and Health Employment	March 2016 (m)	47,162	45,298	4.1% ↑	3.0%
Average Weekly Work Hours Private Sector	March 2016 (m)	34.6	35.2	-1.7% ↓	33.3 (since 2007)
Average Earnings Per Hour Private Sector	March 2016 (m)	$34.47	$33.62	2.5% ↑	3.9% (since 2007)
Unemployment Rate	March 2016 (m)	3.9%	4.2%	NA ↓	4.9%
Labor Force	March 2016 (m)	120,739	117,940	2.4% ↑	0.9%
Initial Jobless Claims	March 2016 (m)	401	514	-22.0% ↓	NA
Business Formation					
Total New Business Filings	First Quarter 2016	450	455	-1.1% ↓	399 (since 2000)
New Business Incorporations	First Quarter 2016	35	31	12.9% ↑	59 (since 2000)
New Limited Liability Companies	First Quarter 2016	257	284	-9.5% ↓	188 (since 2000)
New Assumed Names	First Quarter 2016	137	119	15.1% ↑	131 (since 2000)
New Non-profits	First Quarter 2016	21	21	0.0% ↔	20 (since 2000)
Rochester Residential Building Permit Valuation, in thousands	March 2016 (m)	7,388	48,768	-84.9% ↓	NA

(m) represents a monthly series

Southeast Minnesota contains the Rochester MSA, an area that derives much of its employment from the educational and health sector. This sector continues to be a pillar of economic vitality for Rochester (and for Southeast Minnesota). Year-over-year overall employment in the Rochester area increased by 2.1 percent in March 2016 and employment in the key education/health sector rose by 4.1 percent (above the 3 percent long-term annualized growth of employment in this sector). Note that the share of employment in Rochester's educational and health sector has increased from 29.4 percent of employment to more than 40 percent since 1999. Average earnings per hour in the private sector increased over the year ending March 2016, the unemployment rate fell, the labor force expanded, and initial jobless claims declined. The length of the workweek fell and the value of residential building permits slipped. New business filings also declined in the Rochester area in the first quarter.

State and National Indicators

MINNESOTA Indicators	Mar 2016	Dec 2015	Mar 2015	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA	2,876,500	2,875,700	2,845,500	0.3%	1.1%
Average weekly hours worked, private sector	33.5	33.7	33.9	-0.6%	-1.2%
Unemployment rate, seasonally adjusted	3.7%	3.7%	3.6%	NA	NA
Earnings per hour, private sector	$26.82	$26.36	$26.32	1.7%	1.9%
Philadelphia Fed Coincident Indicator, MN	177.73	176.69	173.74	0.6%	2.3%
Philadelphia Fed Leading Indicator, MN	1.42	1.06	1.89	33.4%	-24.9%
Minnesota Business Conditions Index	50.7	39.4	50.0	28.7%	1.4%
Price of milk received by farmers (cwt)	$15.80	$17.00	$17.40	-7.1%	-9.2%
Enplanements, MSP airport, thousands	1,662.9	1,429.0	1,629.6	16.4%	2.0%

NATIONAL Indicators	Mar 2016	Dec 2015	Mar 2015	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA, thousands	143,774	143,146	140,972	0.4%	2.0%
Industrial production, index, SA	103.4	104.1	105.5	-0.7%	-2.0%
Real retail sales, SA ($)	187,831	188,936	186,219	-0.6%	0.9%
Real personal income less transfers ($, bill.)	11,821.5	11,737.8	11,422.4	0.7%	3.5%
Real personal consumption expenditures ($, bill.)	11,397.1	11,358.5	11,104.4	0.3%	2.6%
Unemployment rate, SA	5.0%	5.0%	5.5%	NA	NA
New building permits, SA, thousands	19,300	17,620	17,477	9.5%	10.4%
Standard & Poor's 500 stock price index	2,022	2,054.1	2,080	-1.6%	-2.8%
Oil, price per barrel in Cushing, OK	$37.55	$37.19	$47.82	1.0%	-21.5%

Across the state there was growth in payrolls and higher earnings per hour in the private sector over the past twelve months. The seasonally adjusted unemployment rate inched up over the past twelve months and average weekly hours worked in the private sector declined. Indicators from the Federal Reserve Bank of Philadelphia suggest improved current and future conditions in the state economy (although the leading indicators index was lower than last year). The Minnesota Business Conditions index surged in recent months. Milk prices were 9.2 percent lower than one year ago in March. This has been a particularly difficult period for those who make a living in milk production. Enplanements at the Minneapolis-St. Paul airport increased by 2 percent over the last twelve months.

On balance, the national economic indicators reported in the table suggest improved economic activity in recent months. While industrial production was lower and stock prices fell, most of the indicators showed strength. Employment, consumer expenditures, and income all experienced growth over the recent quarter and the national unemployment rate stabilized. Retail sales have shown some recent weakness and oil prices have stabilized in recent months (which is a welcome sign in the domestic energy sector). New building permits were much stronger than one year ago as residential construction continues to recover from historically low levels during the Great Recession.

The Southeast Minnesota Quarterly Economic and Business Conditions Report is a collaboration between the Office of the Minnesota Secretary of State and the School of Public Affairs Research Institute (SOPARI) of St. Cloud State University. All calculations and text are the result of work by SOPARI, which is solely responsible for errors and omissions herein.

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U.S. Department of Commerce Bureau of Economic Analysis: Real Personal Consumption, Real Personal Income, Real Wages and Salaries.

U.S. Energy Information Administration: Oil Prices.